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SUBJECT: VIETNAM ECONOMIC HIGHLIGHTS: U.S. FDI AT BREAKNECK SPEED,  
PLUG PULLED ON POWER PLANTS, TRADE DEFICIT NARROWS

REF: A) Hanoi 975 (Oil Production Down Revenues Up);  
B) Hanoi 738 (Focus on U.S. Business: Luxury Taxes);  
C) Hanoi 1072 (Pharma, IPR and Market Access Top TIFA)

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11. (U) This cable is part of an ongoing series on developing  
economic stories in Vietnam.

U.S. INVESTMENT ROLLING IN AT AN UNPRECEDENTED PACE  
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12. (U) U.S. investment in Vietnam in the first eight months of 2008  
grew at an unprecedented pace. Authorized U.S. FDI from January to  
August 2008 (\$1.37 billion) already equals a quarter of all U.S.  
investment during the previous nine years (\$2.8 billion from  
1988-2007), according to Government of Vietnam (GVN) figures. The  
U.S. is out of Vietnam's top ten investors' list (at 11st place) in  
part because investment from other countries is accelerating even  
faster. Taiwan, Vietnam's top investor, has pumped \$8.61 billion  
this year alone, a number accounting for 79% of all Taiwanese  
investment from 1988 to 2007. Investment from Japan, second on the  
overall list, is coming in almost as fast, with 2008 commitments  
(\$7.26) equal to 75% of the previous nine years' commitments.

STATE-OWNED EVN SHORT-CIRCUITS POWER GENERATION DEVELOPMENT  
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13. (U) In early September Electricity of Vietnam (EVN), the  
state-owned (SOE) power monopoly and the sole electricity  
distributor in the country, canceled 13 power generation projects  
with a total output capacity of 13,800 megawatts, citing difficulty  
in obtaining commercial financing. Most of EVN's partners in these  
projects, including other SOEs, have pulled out. Before interest  
rates topped 20% in mid June, EVN had been borrowing for real estate  
speculation rather than power plant production. The GVN's failure  
to keep up with power production demands is threatening to slow  
infrastructure development in Vietnam. For instance, last August,  
China Steel (Taiwan) was unable to go ahead with a \$5 billion steel  
plant in Ba Ria-Vung Tau Province because the area lacked the power  
infrastructure to support the plant.

VIETNAM ALLOWS GAS RETAILERS TO SET MARKET PRICES  
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14. (U) On September 18, the Ministry of Finance (MOF) authorized  
fuel retailers to set gas prices based on market rates. The MOF  
also introduced a 5% import tax on imported gasoline to reimburse  
retailers for losses incurred on the sale of fuel during the time  
when prices were capped below market rates. All distributors and

nearly all retailers are state-owned. In order to set new prices, retailers and distributors must apply to an inter-ministerial team made up of MOF and the Ministry of Industry and Trade, which must adjudicate the request within three days; if the applicant does not receive an answer in that period it can go ahead and set gas prices.

#### TRADE DEFICIT NARROWS, \$20 MILLION TARGET NOW SEEMS DOABLE

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15. (U) Vietnam's trade deficit is finally narrowing after almost doubling during the first nine months of the year, according to GVN figures. Although the deficit has already exceeded the deficit for all of 2007 (at \$12.44 billion, the largest ever recorded), the GVN now expects that the year's total deficit will be from \$18.5 to \$19.5 billion, under the \$20 billion target which the GVN had set earlier this summer. The deficit has stood at less than a billion dollars during the last four months, while after averaging \$2.70 billion from January to May. September's projected numbers are the lowest so far this year, at \$500 million. Strong export growth is believed to be one of the main factors, as imports have remained relatively constant during the year.

#### VIETNAM TO INCREASE DUTIES ON MINING AND OTHER COMMODITIES

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16. (U) According to an August 15, 2008 draft proposal put forth by the Ministry of Finance (MOF), the GVN plans to raise royalty duties on oil, gas, minerals, water and other commodities. Under the scheme, the GVN would increase the rate ceiling for metallic minerals from five to 30%; for non-metallic minerals from five to 10% (except coal, which would rise from three to 20%); and for oil and gas from 10 to 25%. In addition, the MOF is reportedly considering to raise export duties on oil and gas from 20 to 50%, and for metallic minerals from 20 to 30%. The GVN has already

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raised the export tax for oil and gas once this year, from four to 20% in June. The Australian Chamber of Commerce has taken the lead in drafting a paper for submission at the next Vietnam Business Forum in December to express concern over the proposed tax increase and the challenges that foreign investors face in Vietnam's mining sector.

#### "BUSINESS AS USUAL" FOR AIG VIETNAM

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17. (U) AIG Vietnam executives dispelled concerns about the insurer's business in Vietnam at a press conference in late September. Although the company admitted cancellations from customers concerned about its financial troubles (up to 90 a day), it said that new business was brisk (up to 300 new contracts daily). "Still business as usual," Jamie Rains, CEO of AIG Life Vietnam, was quoted as saying in the press report. AIG added that it had 250,000 policy holders, a number that it expects to grow by 30% over the next year.

#### PETRO VIETNAM TEAMS UP WITH RUSSIANS AND VENEZUELANAS

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18. (U) Petro-Vietnam hopes to sign oil and gas exploration/production contracts with two Russian firms (Zarubezhneft and Gasprom), and Petroleos de Venezuela (PDVAS). Petro-Vietnam will create two joint ventures with Venezuela to supply and refine oil and gas in Venezuela and Vietnam. As local production in Vietnam fell this year (REF A), the GVN is primarily focused on expanding oil exploration and exploitation overseas.

#### INDUSTRY AND TRADE CHALLENGES FINANCE LUXURY TAX PROPOSAL

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19. (U) In a rare development, two GVN ministries have presented, and gone public with, competing legislative drafts before the National Assembly. On September 8, the Ministry of Industry and Trade went public with proposed changes to a Ministry of Finance draft on luxury taxes to, among other things, extend the implementation date

for the automotive industry from the MOF's 2009 to 2010 (a key demand, REF B) and lower the tax rates on some models. The National Assembly has not indicated which version it prefers. Post has been in consultations with Ford and GM, the GVN and the National Assembly to promote the best possible outcome (REF C).

#### GVN ANNOUNCES PLAN TO PRIVATIZE RETAIL GAS DISTRIBUTOR

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¶10. (U) Vietnam intends to partially privatize or "equitize" state-owned gasoline importer and distributor Petrolimex, which controls approximately 60 percent of Vietnam's market for refined petroleum products. The move comes in the wake of the GVN's decision to allow Japanese refiner Idemitsu and Kuwait Petroleum International (KPI) to sell directly to Vietnam's downstream gasoline market in exchange for the two firms' investment in Vietnam's second oil refinery, Nghi Son. Deputy Prime Minister Hoang Trung Hai, who made the announcement, did not say when Petrolimex would begin to sell shares.

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